

## MEMORANDUM

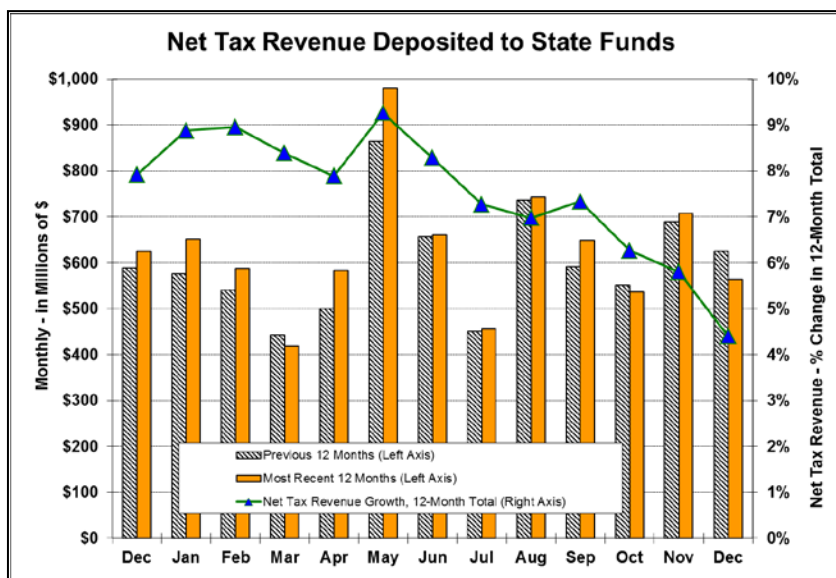
TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

FROM: Jeff Robinson  
Shawn Snyder

DATE: January 27, 2014

### Twelve-month Total Net Tax Receipts Through December 31, 2013

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending December 2013 with comparisons to the previous 12 months. December 2012 to December 2013 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



### Overview of Current Situation

The annual growth rate for Iowa total tax revenue reached 9.3% in May 2013. The growth rate for the most recent 12 months is 4.4%. Fuel, corporate, and gambling tax revenue are all negative on a year-over-year basis. Sales/use tax and individual income tax growth rates remain positive, but are down considerably from the growth rate 12 months ago.

## Month of December Comparison

December net tax receipts totaled \$563.8 million, a decrease of \$61.4 million (9.8%) compared to December 2012. Major taxes and their contribution to the month's change include:

- Individual Income Tax (negative \$28.8 million, - 9.1%) – Net income fell for the month due to a withholding tax deposit timing issue and also due to unusually large estimate payments received last December, something that made December 2013 look low in comparison.
- Sales/Use Tax (negative \$12.0 million, - 7.3%)
  - Road Use Tax Fund use tax (fee for new vehicle registration) decreased \$0.9 million.
  - General Fund sales/use tax receipts decreased \$11.1 million. Gross sales/use tax receipts decreased \$5.8 million while regular tax refunds increased \$2.0 million and school infrastructure transfers out increased \$3.3 million.
- Corporate Income Tax (negative \$28.5 million, - 54.5%) – Corporate tax refunds increased significantly this December.
- Fuel Tax (negative \$4.3 million, - 10.4%) – The fuel tax decrease was due to a large increase in tax refunds, offsetting a similar decrease in refunds issued in November.
- Cigarette and Tobacco Taxes (positive \$4.9 million, 31.0%)
- Gambling Tax (positive \$2.6 million, 12.5%)

## Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending December 2013, net revenue from all taxes deposited to State funds totaled \$7.539 billion, an increase of \$318.2 million (4.4%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$323.2 million, 10.3%) – Individual income tax continues to post significant year-over-year annual growth with much of the gain the result of very positive tax year 2012 income tax final returns. The 2012 tax year impacted General Fund revenue starting mid-December 2012 and ending May 2013. The annual rate of income tax revenue growth is expected to decline significantly through May 2014.
- Sales/Use Tax (positive \$47.6 million, 2.0%)
- Corporate Income Tax (negative \$66.3 million, - 14.1%) – The corporate income tax produced significant revenue growth beginning May 2011, but year-over-year growth turned negative in October 2013.
- Fuel Tax (negative \$9.3 million, - 2.1%) – According to Department of Revenue monthly fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold decreased 1.4% while taxable diesel sales increased 3.7%. The annual total for all taxable fuel gallons sold in Iowa is currently 3.0% below the last peak (12 months ending July 2011).
- Gambling Tax (negative \$5.2 million, - 1.7%) – According to Racing and Gaming Commission statistics, 15 of Iowa's 18 casino/track locations recorded negative annual adjusted gross revenue (AGR) growth for the 12-month period ending December 2013. The combined AGR change for the 18 facilities was negative 3.4% over the previous 12 months. Across all facilities, the AGR for the most recent 12 months totaled \$1.417 billion. The annual AGR total has been declining and is 3.6% below the November 2012 peak.

- Real Estate Transfer Tax (positive \$2.2 million, 12.6%) – After the strong gains posted in recent months, annual real estate transfer tax receipts total \$19.7 million and exceed the prerecession peak of \$19.2 million set in June 2006.
- Cigarette and Tobacco Tax (positive \$2.3 million, 1.0%)

## **Tax Spotlight – Other Taxes**

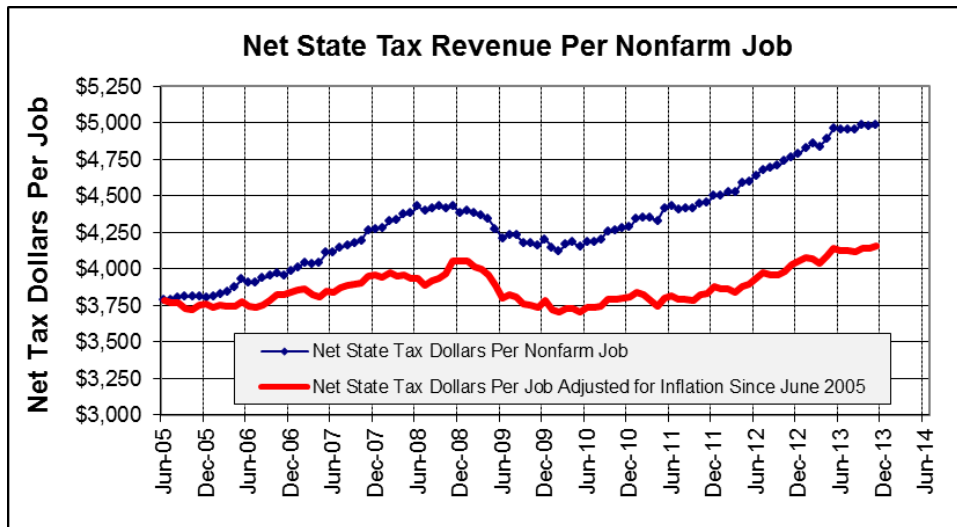
The “Other Tax” category includes the following net tax collections:

- Brucellosis Eradication Property Tax – This statewide property tax is administered under the authority of [Iowa Code section 165.18](#). The Secretary of Agriculture sets a property tax rate not to exceed \$0.3375 per \$1,000 of taxable valuation to cover expenses estimated to be paid through the Brucellosis and Tuberculosis Eradication Fund for the following fiscal year. For FY 2014, the property tax rate is \$0.0033 per \$1,000 of taxed valuation. Funds received from the tax are credited to the Brucellosis and Tuberculosis Eradication Fund. The tax raised \$534,000 over the most recent 12-month period.
- Drug Stamp Tax – This excise tax is administered by the Department of Revenue under the authority of [Iowa Code chapter 453B](#). The tax is imposed on dealers of marijuana and other controlled substances. Rates range from \$5.00 per gram of marijuana to \$750 for each unprocessed marijuana plant. Funds received from the Drug Stamp Tax are deposited in the General Fund. The tax raised \$105,000 over the most recent 12-month period.
- Utility Replacement Property Tax – This statewide property tax is administered under the authority of [Iowa Code section 437A.18](#). The tax rate is established at \$0.03 per \$1,000 of taxable utility company property valuation in the State. Funds generated from this property tax are deposited in the General Fund. The tax raised \$340,000 over the most recent 12-month period.
- Property Tax Relief Fund – Under certain circumstances, utility replacement property tax may be deposited in the Property Tax Relief Fund created in [Iowa Code chapter 426B](#) for distribution to counties. During the most recent 12-month period, \$1.2 million in tax was deposited in the Fund.
- Car Rental Tax – This excise tax is administered by the Department of Revenue under the authority of [Iowa Code chapter 423C](#). The tax rate of 5.0% is imposed on the rental price of a vehicle. Funds received from the car rental tax are credited to the Statutory Allocations Fund. The tax raised \$4.0 million over the most recent 12-month period.
- Tax Gap Program – The Department of Revenue transfers tax revenue on a monthly basis to fund the tax collection activities of the Tax Gap Program. The Tax Gap Program is a Department initiative designed to improve tax compliance through utilization of technology. A total of \$8.51 million in tax revenue was credited to the Tax Gap Program over the most recent 12-month period.
- Department of Revenue Operating Appropriation Transfers – Each month, the Department of Revenue transfers tax revenue out of the State General Fund and deposits the money to the Department’s operations account. The money is used in the operations budget to fund collections (FY 2013 = \$10.9 million) and streamlined sales tax activities (FY 2012 = \$0.2 million). Although the money is withdrawn as tax receipts, the Department does not redeposit the money as tax revenue, instead depositing the money as “intrastate transfers.”

During FY 2013, these transactions artificially reduced reported State tax receipts by a total of \$11.1 million.

### Tax Revenue and Employment

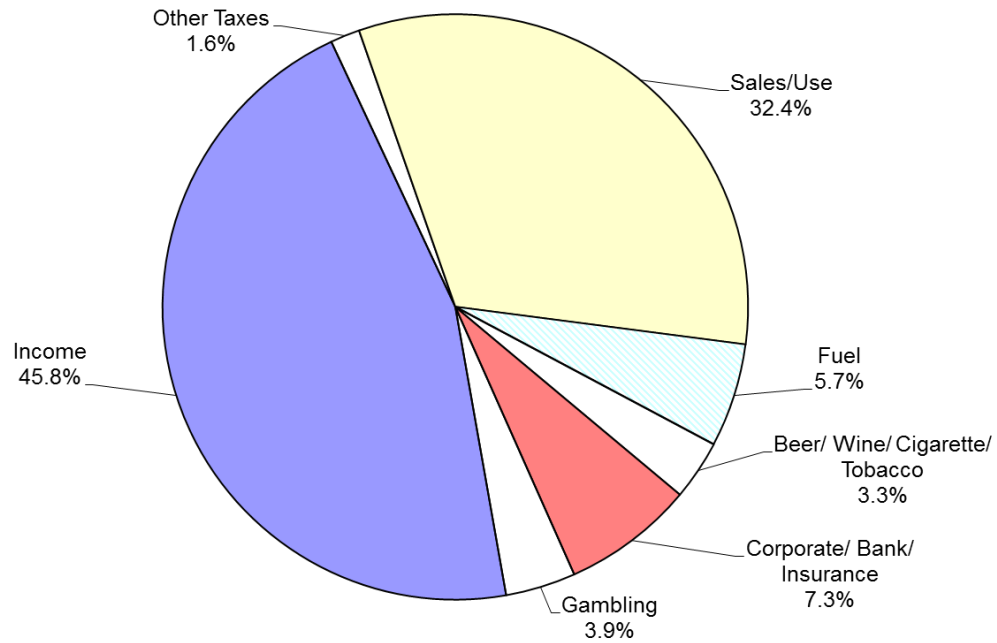
The average reading for Iowa nonfarm employment over the 12 months ending November 2013 is 1,524,800 and net State tax receipts over the same 12 months totaled \$7.600 billion, or \$4,984 per nonfarm job. This is \$1,199 higher than the per-job average for the 12 months ending June 2005. The blue line on the following chart depicts the annual tax revenue collected by the State per job, calculated monthly. The red line subtracts the impact of inflation since June 2005 from the blue line. The red line indicates that inflation adjusted tax revenue per job has increased \$375 since June 2005 and the remainder of the \$1,199 increase (\$824) represents the impact of inflation.



## Net State Tax Revenue - Twelve Months Ending December 2013

**Net Revenue = \$7.539 Billion**

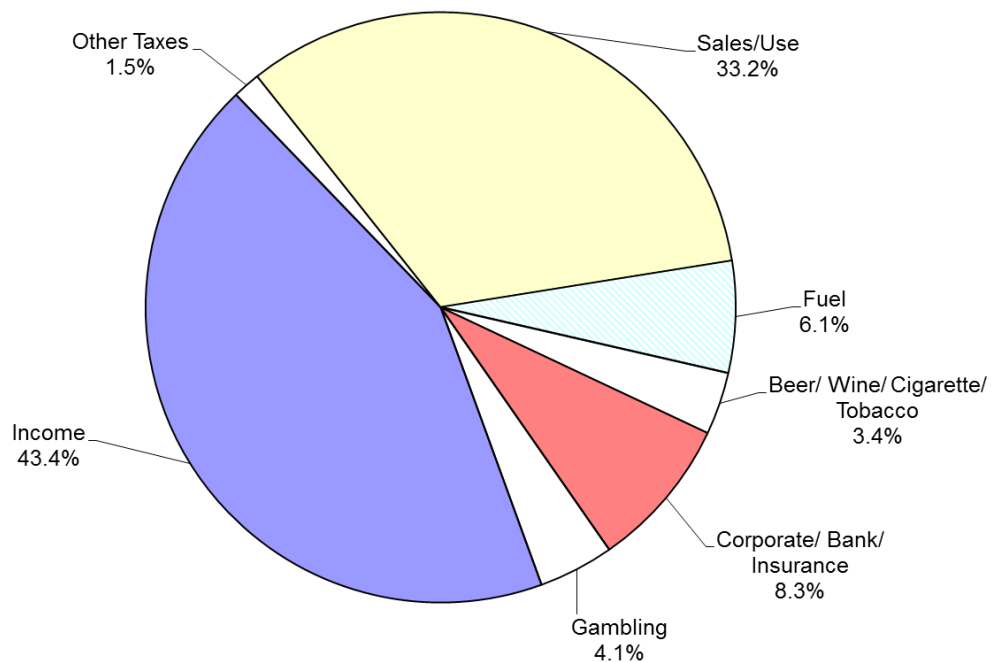
Percentages may not add to 100% due to rounding



## Net State Tax Revenue - Twelve Months Ending December 2012

**Net Revenue = \$7.221 Billion**

Percentages may not add to 100% due to rounding



## Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of December 2012	Month of December 2013	December \$ Change	December % Change
Banking	\$ 29.0	\$ 37.4	\$ 8.4	29.0%	\$ 0.6	\$ 6.3	\$ 5.7	950.0%
Beer & Wine	22.1	21.8	- 0.3	-1.4%	1.8	1.9	0.1	5.6%
Cigarette & Tobacco	224.7	227.0	2.3	1.0%	15.8	20.7	4.9	31.0%
Corporate Income	469.9	403.6	- 66.3	-14.1%	52.3	23.8	- 28.5	-54.5%
Fuel	441.0	431.7	- 9.3	-2.1%	41.5	37.2	- 4.3	-10.4%
Gambling	297.7	292.5	- 5.2	-1.7%	20.8	23.4	2.6	12.5%
Individual Income	3,130.7	3,453.9	323.2	10.3%	315.8	287.0	- 28.8	-9.1%
Inheritance	82.4	89.7	7.3	8.9%	10.5	9.5	- 1.0	-9.5%
Insurance	102.0	106.3	4.3	4.2%	0.0	0.0	0.0	--
Other Taxes	9.4	13.4	4.0	42.6%	1.0	1.2	0.2	20.0%
Real Estate Transfer	17.5	19.7	2.2	12.6%	1.8	1.5	- 0.3	-16.7%
Sales/Use	2,394.1	2,441.7	47.6	2.0%	163.3	151.3	- 12.0	-7.3%
Total Net Taxes	\$ 7,220.5	\$ 7,538.7	\$ 318.2	4.4%	\$ 625.2	\$ 563.8	\$ - 61.4	-9.8%
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 8,479.6	\$ 8,899.2	\$ 419.6	4.9%	\$ 696.3	\$ 667.1	\$ - 29.2	-4.2%
Tax Refunds	\$ - 1,258.9	\$ - 1,360.5	\$ - 101.6	8.1%	\$ - 71.0	\$ - 103.3	\$ - 32.3	45.5%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 6,100.3	\$ 6,339.3	\$ 239.0	3.9%	\$ 544.3	\$ 453.8	\$ - 90.5	-16.6%
Road Use Tax Fund	\$ 756.7	\$ 767.8	\$ 11.1	1.5%	\$ 65.6	\$ 60.4	\$ - 5.2	-7.9%
Non-GF Gambling	\$ 234.7	\$ 290.4	\$ 55.7	23.7%	\$ 5.6	\$ 23.2	\$ 17.6	314.3%
Other State Funds	\$ 128.9	\$ 141.2	\$ 12.3	9.5%	\$ 9.9	\$ 26.3	\$ 16.4	165.7%
Local Option Taxes *	\$ 862.6	\$ 900.7	\$ 38.1	4.4%	\$ 73.0	\$ 76.7	\$ 3.7	5.1%

\* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

A percentage change displayed as "--" represents instances where the base year net revenue amount was zero or negative so no meaningful percentage change can be calculated.

## **Tax Categories Used in Table**

**Franchise (Bank) Tax:** The franchise tax paid by banks is deposited in the State General Fund. Credit unions are taxed under a different system than banks, but the credit union tax is included in this line also. Of the total deposited, the bank tax provides approximately 98.0% of the revenue and the credit union tax 2.0%.

**Beer & Liquor Tax:** Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in an Iowa Economic Development Authority fund for wine promotion.

**Cigarette & Tobacco Tax:** Prior to July 1, 2011, all cigarette and tobacco products tax revenue was deposited to the State General Fund. Beginning FY 2012, the first \$106.0 million of revenue from cigarette and tobacco taxes is deposited to the Health Care Trust Fund and the remainder is deposited to the State General Fund. Beginning FY 2014, all cigarette and tobacco tax revenue is deposited to the Health Care Trust Fund.

**Corporate Income Tax:** All corporate income tax is deposited in the State General Fund.

**Motor Vehicle Fuel Tax:** All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

**Gambling Tax:** Gambling tax is deposited in several State funds. For FY 2013, \$40.0 million was deposited to the General Fund and the remainder to other State funds. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the County Endowment Fund, the Vision Iowa Fund, the Revenue Bond Debt and Subsidy Holdback Funds, the Technology Reinvestment Fund, and the Iowa Skilled Worker and Job Creation Fund.

**Individual Income Tax:** Most individual income tax revenue is deposited in the State General Fund. A total of \$4.0 million per year is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a State fund. That revenue is not included here.

**Inheritance Tax:** All inheritance tax is deposited in the State General Fund.

**Insurance Premium Tax:** All insurance premium tax is deposited in the State General Fund.

**Other Taxes:** Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

**Real Estate Transfer Tax:** Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The distribution of State portion of real estate transfer tax revenue is currently changing each fiscal year, with the State General Fund portion reduced to 65.0% by FY 2015. The portion not deposited to the State General Fund is deposited to the Housing Trust Fund and the Shelter Assistance Fund.

**Sales/Use Tax:** General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation.

**Local Option Taxes:** Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

**Report Database:** The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.